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ABSTRACT

Responses of southern states to revenue shortfalls and their significance for public schools and higher education are examined in this report. Many different actions have been take to address state fiscal problems: most strategies require changes in revenue polices that increase taxes and fees or reallocate funds, and many have mandated spending cuts. The following revenue measures are described: tax increases, state-operated lotteries, bond programs, fund shifts, and increases in tuition and fees. Spending reduction activities are also discussed, such as state actions, government efficiency planning, and progressive shortfalls in education budget funds. Ways in which budget reductions are being made, statewide information on budget cuts, and their effects on education are also examined. Plans for change being developed in Florida, Mississippi, Oklahoma, Maryland, and Virginia are highlighted. A list of future considerations is included. (LMI)

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COPING WITH THE SLUGGISH ECONOMY:

State Responses to Revenue Shortfalls and Their Significance for Public Schools and Higher Education

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COPING WITH THE SLUGGISH ECONOMY:
State Responses to Revenue Shortfalls and Their Significance for Public Schools and Higher Education

SREB states worked hard in the 1980s for improvement and fundamental change in education. As the 1990s began, education, government, and business leaders sought new initiatives that would build on the momentum of the '80s and accelerate the effort to reshape our schools and colleges for the 21st century. But Murphy's Law (if something can go wrong, it will) intervened in the form of a recession severe enough to stall reform efforts and endanger long-term educational quality in the region.

The current recession, many economists say, is not so severe as the economic downturn of the early 1980s, but recovery will be slower. The economic hard times, coupled with changes in federal programs and the shifting priorities of state governments, is squeezing education's share of state budgets—and public colleges and universities are feeling the pinch. Higher education's share of state budgets has declined steadily since the mid-1980s. At the same time, most states have increased the share of state spending earmarked for Medicaid and prisons. A recent national study reports that in 1991 alone, state spending for Medicaid increased 17 percent,and prison spending rose 10 percent.

While the current recession may not be as severe as the last, the effect on education budgets is profound—and getting worse.

- ✓ For the first time, a national decline in the actual dollars appropriated for higher education has been reported—a drop of nearly 2 percent between 1991 and 1992.
- ✓ For the first time since perhaps WW II, some faculty in Virginia had to give up part of a salary increase that had already been awarded, and their salaries actually decreased from one paycheck to the next.
- ✓ For the first time in the 135-year history of the University of Maryland system, employees of the main research campus have been laid off.
- ✓ For the first time in history, Florida universities have started a year with an increase in full-time students and a reduction in state funds.
- ✓ For the first time ever, Maryland county governments have the authority to cut state and local public school budgets to cover shortfalls in other services.

How are states coping with declining revenue growth and increasing demands for educational and other services from their citizens? Will the decisions that states make now result in long-term changes in the way schools and colleges do business? Or are the changes viewed as temporary, with

the assumption that economic improvement and increased revenues will soon allow things to return to "normal"? Are the changes forced by budgetary constraints designed to improve efficiency and reduce waste? What strategies are being pursued to protect services that are vital to the public well-being and long-term economic prosperity of the state?

SREB states are taking many different actions to address their fiscal problems. Most strategies require changes in revenue policies that increase taxes and fees or shift funds from one source to another. Many states have made the difficult decision to mandate one or more cuts in current spending.

REVENUE MEASURES

Tax Increases

- **States have studied tax reform, but none have made major changes.**
- **At least 10 SREB states have raised taxes since the 1989-90 fiscal year.**
- **The sales tax has been the most common source of new tax revenue.**

Several SREB states (Alabama, Arkansas, Maryland, Tennessee, and Texas) have debated tax reform recently, but none have made major changes in their tax systems. General assemblies have increased existing taxes. Ten SREB states (Alabama, Arkansas, Georgia, Kentucky, Louisiana, Maryland, North Carolina, Oklahoma, Texas, and West Virginia) have passed tax increases since 1989 that will collectively raise in excess of $7 billion annually—an amount greater than the individual state-funded budgets of nearly two-thirds of the SREB states. North Carolina and Texas have raised taxes in two of the three years; Louisiana, in all three.

The sales tax has been the most common source of new revenue in the past three years. All but one of the 10 states (Alabama) raised or extended sales taxes. In most cases, the states increased the general sales tax, but in some instances, they hiked the sales tax on specific items or removed exemptions (on food, for example).

While Alabama did not directly alter sales taxes, it did expand a 4 percent "use tax" on mail order companies and television shopping networks. Other common increases include gasoline taxes, corporate income taxes, and "sin" taxes (tobacco, cigarettes, and liquor). In 1991-92, the increases are estimated to raise from $95 million in Maryland to nearly $1 billion in Texas.

State-Operated Lotteries

- **Six SREB states operate lotteries.**
- **Proceeds usually go to the general fund.**

Lotteries have been created in several SREB states searching for new revenue sources. Lotteries now operate in Florida, Kentucky, Louisiana, Maryland, Virginia, and West Virginia. Texas voters just approved a lottery, and voters in Georgia will decide the issue in a November 1992 referendum.

In most states, lottery proceeds are deposited in the general fund. Florida's lottery receipts are dedicated to education and are estimated to provide more than $800 million to education budgets in 1991-92. Although not specified in law, lottery funds in Florida are not intended to supplant general revenue funding. The Louisiana state lottery, which began operation in September 1991, is estimated to raise $105 million in 1992-93, the first full year of operation. No decision has been made about the use of the proceeds. West Virginia lottery receipts are earmarked for education, senior citizen programs, and tourism. About $7 million of the $25 million in 1991-92 went to education.

Bond Programs

- **New higher education bond programs have been approved in three states.**
- **Two states have authorized new public school bond programs.**

While most states in the region have a history of issuing bonds as a means of financing higher education construction, Arkansas and Mississippi authorized bond sales for the first time in 1989. Arkansas' legislation permits the sale of $300 million in college savings bonds over

several years, and a portion of the proceeds are to be used for capital projects. In the same year, Maryland authorized four-year colleges to issue revenue bonds to finance the construction of academic buildings. Previously, bonds could be issued for auxiliary facilities only.

Louisiana has used bonding for the construction of academic facilities at colleges and universities, although not in the last five years. Due to a cash shortfall, the 1990 legislature authorized the sale of $60 million in bonds for deferred maintenance, equipment, and library acquisitions. The proceeds from the sale were not used for maintenance after bond experts advised the state not to borrow for normal repair projects.

Public school construction has been primarily a local responsibility in two-thirds of the SREB states. Most school districts have the authority to issue bonds, but stronger bond ratings make state-backed bonds less costly to finance. In 1989, Texas and West Virginia joined Florida, Georgia, Kentucky, Maryland, and North Carolina in authorizing state bonds for school construction.

Fund Shifts

- **Special funds have been shifted to cover cuts in general funds.**

The temporary tactic of shifting funds to offset education cuts has been used in several states. The 1990 Virginia General Assembly used a number of fund transfers to soften the impact of revenue shortfalls on education. As a part of the budgeting process, $10 million was transferred from the Literary Fund, traditionally used for public school construction, to cover the state's share of teacher retirement costs. Base funding for colleges and universities was reduced, but institutions were allowed to recover up to half of the reduction through tuition and fee increases. Funding for education construction projects was also shifted from general funds to lottery proceeds.

As Virginia's revenues continued to decline during 1990-91, mid-year budget adjustments shifted the lottery funds to education operations, putting building projects on hold. Additionally, local districts saved enough from a change in retirement system contributions to offset the $41 million general fund reduction taken at the state level so that public schools suffered no loss in actual dollars.

During 1990-91, budgets in Florida were cut several times as revenues fell below projections month after month. Previously unused recurring lottery proceeds were allocated to offset a portion of the early cuts to education. Late in the year, the legislature in a special session borrowed excess trust fund balances and deposited them in the general fund to balance the budget before the close of the fiscal year.

The temporary tactic of shifting funds to offset education cuts has been used in several states.

In South Carolina, current year shortfalls have caused a statewide budget cut and a "set aside" (the appropriation is not actually cut, but funds cannot be spent). Public schools have offset the general fund cut by shifting Education Improvement Act (EIA) funds from construction to salaries. In the adopted budget for 1991-92, some items previously budgeted from general funds are now being covered by revenues from a one-cent sales tax earmarked for EIA initiatives. In the 1991-92 adopted budget, $17.7 million for school building aid and nearly $13 million in Target 2000 initiatives have been shifted from general funds to EIA funds.

Increases in Tuition and Fees

- **Most institutions have raised tuition and fees.**
- **Increases are larger for out-of-state students.**
- **One-time surcharges are being assessed.**

Many states are offsetting reductions in higher education funding by increasing tuition and fees. In the five years between 1986 and 1991, the median tuition and fees at major doc-

toral institutions in the SREB region increased by more than 50 percent for in-state undergraduate students. In 1991-92, tuition increases for in-state undergraduates range from 4 percent in Georgia and West Virginia to 20 percent in North Carolina. Last year, tuition at public colleges nationwide increased by 12 percent—the largest single-year jump since the end of the recession in 1983.

In some states, such as Alabama, Florida, Mississippi, Virginia, and West Virginia, out-of-state students will see more of an increase than in-state students. For example, non-resident undergraduate students at universities in West Virginia will pay 9 percent more, while the increase for in-state students is only 5 percent. Out-of-state undergraduates attending Florida institutions will pay an additional 25 percent, while in-state students pay 15 percent more.

In Virginia, non-resident tuition and fee increases will also be greater than those for residents. Beginning in 1992-93, a new policy will require non-residents to pay 100 percent of the direct cost of their education (now 75 percent); in-state students pay roughly 25 percent of the cost. In Mississippi, out-of-state students will pay the same 10 percent base tuition increase that residents will pay—plus a 25.4 percent increase in non-resident "add-on" fees.

A few states in the region have assessed one-time tuition surcharges to make up for revenue shortfalls. During 1990-91, North Carolina students paid a temporary academic fee of $41.50 for the year, raising student costs at major doctoral institutions by about 4 percent.

In Virginia, the community college system and four of the state's 15 four-year colleges charged in-state undergraduate students a one-time fee ranging from $18 (2.1 percent) to $108 (3.8 percent). Assessments to out-of-state undergraduates ranged from $60 to $360, causing students to pay from 1 percent to nearly 6 percent more for the year.

Current-year budget reductions caused the University of Maryland system to adopt a 15 percent tuition surcharge effective in the spring. The surcharge will replace about $12 million of the system's $35.5 million budget cut.

SPENDING REDUCTIONS

State Actions

- **Most states have taken mid-year budget cuts.**
- **Government spending is being scaled back.**

Most of the region is seriously affected by the current state of the economy, although a few states (Louisiana, Oklahoma, Texas, and West Virginia) have been spared mid-year cuts. During FY 1991-92, mid-year cuts have been taken in Alabama, Arkansas, Georgia, Kentucky, Maryland, and South Carolina. Cuts of nearly 6 percent proposed by Florida's Cabinet were challenged in court, requiring the legislature to meet in special session to address the shortfall.

Most states are scaling back on government spending. Typically, this involves cuts that could be restored once the economy recovers—the deletion of positions (usually vacant); hiring freezes; and the reduction of funds for travel, equipment purchases, supplies, and building maintenance.

Plans for Efficiency in Government

- **Some states are studying major reorganization.**
- **Watchdog groups are searching for efficiencies.**

In a few cases, states are studying ways to reorganize or restructure government operations for more efficiency and cost effectiveness over time. In Texas, for example, a committee reviewing proficiency in state government recommended nearly 1,000 changes that collectively would save the state about $4 billion over the biennium. According to the state comptroller's office, a group of recommendations adopted this year will reorganize and consolidate some areas of government, particularly human services and transportation. These changes are anticipated to save about $2.4 billion over two years.

The governor and state cabinet in Florida appointed a committee, headed by the lieutenant governor, to recommend ways to improve government operations. The governor says he will not consider raising taxes until the public is convinced government is operating efficiently and more services are required. Additionally,

Florida's 1991-92 budget includes a "productivity enhancement" provision that reduced budgeted positions and the funds for those positions by about 5 percent. Agencies can earn incentive grants by showing how productivity will increase (for example, by providing additional staff training or purchasing computers).

In Maryland, discussions about tax increases were put on hold pending the reports of two study groups. An interim legislative committee was charged with reviewing how government collects and spends revenues. Additionally, a governor's commission is reviewing economy and efficiency in government. Watchdog agencies or special committees in a number of other SREB states are also searching for possible efficiencies and targets for reduction.

Progressive Shortfalls in Funds for Education Budgets

- **1990-91 budgets provided increases.**
- **Nine states took mid-year cuts in 1990-91.**
- **In half the SREB states, beginning higher education budgets for 1991-92 are at or below the prior year.**
- **Six states have made current year cuts.**
- **Higher education has taken large cuts.**

It became apparent during 1989-90 that the economy of the region was beginning to soften. A few states reduced education budgets, but the more serious and prolonged shortfalls began to hit states during 1990-91. In the SREB region, higher education budgets began 1990-91 with increases of 2 percent to 11 percent. Public school budget increases ranged from 2 percent to 24 percent. In most cases, budget growth was in the range of 4 percent to 8 percent. The largest increases overall occurred in Kentucky and Oklahoma, where education reform and tax packages were passed in 1990 sessions.

During 1990-91, nine SREB states were forced to take mid-year budget cuts; in several cases, multiple reductions were taken throughout the year. In most states, higher education institutions were required to reduce spending by a greater percentage than the public schools. Colleges and universities in Alabama, Florida, Georgia, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, and Virginia took cuts of 2 percent to 11 percent. Public school reductions in Alabama, Florida, Mississippi, and North Carolina were 4 percent to 6.5 percent, while direct aid programs in Georgia, Maryland, South Carolina, and Tennessee received no significant cuts. A 1.6 percent general fund loss in Virginia's public school budget was offset by local district savings on retirement contributions.

In some states, higher education budgets have taken cuts that are disproportionately high.

Beginning budgets for the current year reflected continued concerns over the economy. General fund budgets for higher education in Florida, Louisiana, Maryland, Mississippi, South Carolina, Tennessee, Texas, and Virginia remained static or fell below last year's spending levels—and, in most cases, those levels had been reduced during the previous year.

In Louisiana, the general fund budget for higher education was reduced by 4.3 percent—but overall funding increased slightly. General funds were reduced at one Louisiana institution's teaching hospital, while Medicaid monies were increased. Florida's general revenue decrease of 4.6 percent to universities was in addition to an 11.3 percent reduction in lottery proceeds.

Public school budgets adopted in Tennessee and Virginia for 1991-92 were reduced by 5 percent and 2.6 percent, respectively. Mississippi public schools took a budget reduction of nearly 4 percent at the close of the 1990-91 fiscal year. The cut was carried over into 1991-92, and district allocations will be reduced throughout the current year until last year's cut is absorbed.

Thus far this fiscal year, four states (Alabama, Georgia, Maryland, and South Carolina) have *again* been required to reduce spending. In each state, both college and school budgets have been cut. Florida's planned reduction of nearly

6 percent has been challenged in court, requiring the governor to call a special legislative session. Arkansas and Kentucky are the newest victims of revenue shortfalls. Louisiana, Tennessee, and Virginia may also need to trim spending.

In some states, higher education budgets have taken cuts that are disproportionately high when compared to the state budget as a whole. Lottery proceeds offset part of the 1991 mid-year cuts for Florida's colleges and schools. The university system's beginning general fund budget for 1991-92 was reduced by 4.6 percent, while Florida's total general fund budget increased by 11 percent. The Georgia university system, which makes up about 12 percent of the total state budget, was required to take 20 percent of the state's 1991-92 mid-year cut.

The 1991 Virginia general assembly reduced the second year of the state's 1990-92 biennial budget by 8.5 percent—including a "lump sum" reduction that would have been removed from agency budgets in August had the shortfall worsened. Funding for higher education was reduced by 16.7 percent.

Historically, public schools have often been protected from budget cuts. In this recession, a growing number of states are reducing funds for local districts, though generally not to the degree that other agencies are being cut. Of the nine SREB states with shortfalls during 1990-91, reductions in money available for school finance programs occurred in only four states (Alabama, Florida, Mississippi, and North Carolina).

In this recession, a growing number of states are reducing funds for local school districts.

The 1991-92 public school budgets for Tennessee and Virginia are below 1991 spending levels. Current year cuts in Alabama have again affected local school funding, and initial cuts in state funds to public school districts have been taken in Georgia, Maryland, and South Carolina.

How Education Budget Reductions Are Being Made

- **Cuts generally shave money from existing operations.**
- **Personnel are often protected by law or policy.**
- **Hiring freezes, elimination of travel, delayed purchases, and deferred maintenance are common.**

In almost every case, budget-cutters have shaved money from the existing operations of colleges and schools. Often reductions have been so rapid that they have not been done in a strategic way—basically, they have been short-term responses to the immediate shortfall. Given the prolonged nature of the current recession, the practice of "shaving" money here and there is not likely to be adequate. Many schools and colleges have done about all of the trimming they can do.

In some cases, the cuts that colleges and schools can make or the revenues they can raise are limited by state law or central education agency policies. Many limitations relate to personnel. For example, in Alabama, state law protects teacher salaries and benefits from "proration." Utilities and loan payments are also protected. About 85 percent of the Alabama public school budget cannot be adjusted during the fiscal year.

Mississippi also prohibits reductions in certified personnel contracts to absorb shortfalls. Once a budget is adopted for the fiscal year, local taxes cannot be raised to cover a shortfall. The Georgia State Department of Education advised districts that the salary portion of direct instructional costs could not be reduced to accommodate the current year shortfall, though local salary supplements could.

In higher education, salaries seem to be protected for as long as possible as a matter of policy. Alabama institutions historically do not tamper with salaries during budget cuts, although all employees at one institution took a salary reduction during the current year. A policy memorandum from the governor's office in Florida advised state agencies that layoffs and disruption of critical services to the public should be avoided. South Carolina's budget adoption process and mid-year cuts included almost no lay-offs.

The budget-trimming measures taken by colleges and schools share similarities across the region, although few states have collected detailed information on how local school systems have absorbed their cuts. The most common actions have included freezing hiring, deleting vacant positions, delaying the purchase of equipment and books, reducing travel, and postponing maintenance and construction projects.

Virginia and West Virginia have begun early retirement programs for educators and other employees.

Other budget-cutting techniques are less common. Virginia and West Virginia have begun early retirement programs for educators and other employees. Virginia reports that out of the nearly 5,300 state employees who were offered early retirement, more than 3,200 accepted. The state estimates it will save $37 million by filling about half of the positions. School districts made a similar, locally financed offer to 6,500 employees; 3,069 will retire early.

In a few states, such as Alabama, Georgia, North Carolina, and Virginia, state contributions to employee benefit programs (retirement, health insurance, and unemployment compensation) have been reduced based on actuarial projections, with the recovered funds used for other expenditures.

Several states, such as Florida, Maryland, and Virginia, have protected or even increased funding for student financial assistance, but some funding declines are reported in Alabama, Mississippi, North Carolina, and Tennessee. In Tennessee, the Higher Education Commission estimates 5,400 eligible students have been denied need-based grants this year. Tennessee and Virginia both reduced student employment— a form of financial aid. In Virginia, 230 student work/study positions will remain unfilled.

The State Board of Education in Alabama has adopted a resolution that encourages all school systems to delay the opening of the 1992-93 school year until October 1. Additionally, the Board suggested that the school year be reduced from 175 to 160 days.

Virginia's Higher Education Commission advised institutions that cuts should be made in a way that would protect each institution's long-range vitality. The highest priority should be on preserving academic programs and the physical plant, and institutions should work hard to avoid reductions of library materials, instructional equipment, and maintenance of buildings.

Statewide Information on Budget Cuts

The information available on budget cuts and their impact on education programs depends in part on each state's governing structure. Within legal limitations, school districts most often make their own budget-cutting decisions. Some state departments of education offer guidance and suggestions based on law or good practice. How much we know about local school budget cuts depends on the vigor with which each state attempts to collect such information.

In an Alabama survey conducted last spring after 6.5 percent mid-year cuts, school districts estimated the delay of 226 construction projects ($39.5 million), nearly $10 million in equipment purchases, more than 500 school bus purchases ($17.9 million), and nearly $25 million in maintenance or renovation projects. A later survey found that 32 Alabama school systems borrowed an estimated $36.6 million to close-out the 1990-91 fiscal year. By Alabama law, about 85 percent of a local district's budget cannot be "prorated." As school districts approached this year's 6 percent reduction, 56 reported plans to borrow a total $31.5 million to absorb the cut. Between 1991 and 1992, Alabama districts reduced support personnel by 562 and professional personnel by 724. Some school systems have tried to increase local taxes, but voters have turned down all but a few thus far.

A similar survey by the Florida Department of Education—with 31 districts representing 63 percent of the schools reporting—found that nearly 2,800 classroom teaching positions were cut between 1991 and the current year, or about

3.8 percent. Additionally, nearly 1,300 teacher aides (9.4 percent), 136 instructional support staff (27 percent), and 374 specialists (5.7 percent) were eliminated. District office staffs were reduced by 234 persons, or 17 percent. The survey also found that enrollment increases (totaling nearly 80,000 students statewide) would require the 31 responding districts to hire 5,500 new teachers to maintain the 1988-89 pupil-teacher ratio.

In some states, colleges and universities have been required to submit reduction plans to state higher education or budget agencies. The plans often identify areas to be cut, and many include statements estimating their impact. Where multiple cuts have been taken, it is possible to track their cumulative effects.

The University of Maryland (UM) System, for example, lost $53 million in two cuts during 1990-91. Initially the system froze travel, vehicle use, and hiring; reduced "reserve" fund balances; reduced and delayed equipment purchases; and delayed facility renewal projects. In the second round of cuts, 68 vacant positions were eliminated; general funds were replaced with an early phase-in of an out-of-state tuition increase and with prior year fund balances; and various operating expenses were reduced.

The UM System began the 1992 fiscal year with a budget that was about 2 percent lower than its 1991 expenditures, and it has experienced two additional budget cuts totaling about 6 percent. This has resulted in the elimination of 254 filled positions, as well as 70 vacancies, and 417 contractual positions. It also resulted in furloughs ranging from one to five days for non-teaching personnel at most campuses; a further reduction in renovation projects; the implementation of a 15 percent tuition surcharge on students during spring semester; and the reduction of all available fund balances.

Institutions in the Florida university system have prepared a series of reduction plans in response to state budget problems. The first two plans grew out of a pair of cuts in 1990-91. The third plan was developed as part of the system's 1991-92 general fund operating budget, which was 4.6 percent lower than 1991 spending. The final reduction plan grew out of a 1991-92 budget requirement that institutions increase productivity and thereby reduce operating funds.

The first reduction eliminated 78 positions (including 61 faculty) and $8.4 million from the instruction and research portion of the general budget for the nine Florida universities. (The total higher education system cut was $26.4 million.) The universities indicated that classes for the 1991 spring and summer terms would be reduced at five of nine institutions, the purchase of classroom and laboratory equipment would be reduced at all but one, and computer time for classroom projects and advising would decline at five.

The second cut removed $12.6 million and 161 positions (130 faculty) from instruction and research as a part of a total system reduction of $26.4 million. This brought the system's cuts to nearly 3.7 percent of its general fund operating budget. Plans indicated that this would cause the reduction of class offerings for spring and summer 1991 at seven universities. Seven of the eight institutions that reduced funds for classroom and lab equipment in the first cut planned to make further reductions in this area—along with one additional university. Three of the five universities that cut computer time in the first reduction planned to make further cuts.

In some states, colleges have been required to submit reduction plans to state higher education or budget agencies.

The adoption of the 1991-92 budget for Florida universities brought about a third cut of $15.6 million to the total base budget—including $9.9 million and 157 positions (100 faculty) in instruction and research. Institutional plans revealed that five universities would delete more class offerings, eight would begin restricting research, and all nine would reduce the public service part of their institutional missions. All colleges reported the need to further reduce

equipment purchases. Faculty began teaching more courses at five universities; class sizes rose at seven, and one university began eliminating degree programs.

The fourth set of reduction plans in the Florida system was prepared in response to a budget requirement designed to "downsize" institutions while increasing efficiency. The university system lost an additional $21.4 million, including $13.4 million in the area of instruction and research. Another 265 jobs were eliminated, including 234 faculty positions. Most institutions increased class sizes and faculty loads, and they made additional cuts in course offerings, research, public service, and equipment purchases.

What Will Budget Reductions Mean to Education in the Region?

- **State policymakers are stepping back from quality initiatives.**
- **Higher education is considering enrollment caps and new admission standards.**
- **Student costs are up; financial aid is down in some states.**

What do these budget trimming strategies mean for students in colleges and schools? The cumulative effect of several years of spending reductions has many implications, and some may not be known for years. It is clear that schools and colleges are expected to do as much or more with less money. Class sizes will increase, buildings will not be adequately maintained, and laboratory equipment and textbooks will not be updated and replaced. But how will quality be affected?

In the public schools, examples of state policymakers stepping back from quality initiatives are evident across the SREB region. In Georgia, for example, class size requirements adopted as a part of the Quality Basic Education Act of 1985 have been temporarily relaxed, and some programs that provide special assistance to students have been reduced.

North Carolina has delayed full implementation of its Basic Education Program, reduced textbook funds, and severely weakened its new differentiated pay plan for teachers. Virginia has reduced state funds for the Standards of Quality foundation program. Alabama and Mississippi have passed education reform acts with no funds for implementation.

In higher education, funding for quality initiatives, such as endowed chair programs that recruit top scholars to institutions, have been reduced or deleted in Alabama, North Carolina, and Tennessee. Funding for Centers of Excellence and Centers of Emphasis in Tennessee has been reduced. Alabama, Florida, and Tennessee are reducing support for research, and planned vocational education improvements in Alabama and Tennessee were not funded.

Policies under consideration in a number of states may affect a high school student's access to higher education. The Florida State University System has adopted an enrollment cap that will limit the number of students to currently funded enrollment levels—roughly 6,500 students less than are enrolled in 1991-92. According to the Florida Board of Regents, the new policy is not anticipated to affect entering freshmen any more than in past years. However, transfer students who have not graduated from a state community college will find it nearly impossible to enter a university.

Enrollment policies are also being discussed by some institutions in North Carolina, South Carolina, and Tennessee. In a related area, some community colleges in Florida and North Carolina, as well as at least one Alabama university, are questioning their historic open enrollment policies. Those discussions may lead to the establishment of admission standards.

Once a student does get accepted to a higher education institution, he or she still faces the uphill battle of financing that education. Tuition is up at most institutions—in some cases, as high as 20 percent for in-state undergraduates. Student financial aid programs have been reduced in Alabama, Mississippi, North Carolina, and Tennessee, for example. Virginia is holding work/study positions vacant and Florida colleges report that funds for graduate assistantships have been severely reduced.

PLANS FOR CHANGE

The response of most public institutions—including colleges and schools—to current state budget cutting is similar to the homeowner with a leaky roof who chooses to wait out the storm using buckets and pans to catch the rain. Rather than replacing the roof, many colleges and schools are trying to weather the budget storm by shaving funds from existing programs. However, education institutions in some states are moving to restructure operations and accomplish long-term changes in the way they do business.

Accountability legislation passed in 1991 gives Florida's university system spending flexibility in return for improved results. The law identifies nine measures of accountability including: degrees awarded; credit hours produced; faculty contact hours; credits and time required to complete degrees; classroom utilization; and enrollment, progression, retention, and graduation rates. Proposed goals for each measure are being reviewed. The accountability process will be tied to the university system's 1993-1998 master plan and should be fully implemented by January 1994.

The Florida public schools are also moving toward a new accountability process, tied to more flexible funding and local control. Each school in the state will begin issuing annual improvement reports in the 1994-95 school year that will contain performance and achievement measures at the state, district, and school level.

Realizing that large budget increases are unlikely in the future, the Mississippi Board of Trustees of State Institutions of Higher Learning has adopted a plan that will push colleges to reorganize their spending priorities. According to the plan, universities will focus on undergraduate education and limit graduate programs to those that are self-supporting, externally supported, or judged to be important to the economic development of the state. Remedial programs at comprehensive universities will be reviewed for possible elimination. The plan will also discontinue dormant and non-critical programs, and it could move some undergraduate programs to regional colleges and locate all graduate education programs at the comprehensive universities.

Mississippi institutions also must develop a 1992-93 plan that will provide average salary increases of 5 percent for faculty and 3 percent for staff. They must also "make every effort" to increase the purchase of library materials and instructional equipment *from existing resources* (no tuition increase will be allowed and no new state funds are expected). In 1993-94, the institutions will plan the same level of salary increases and designate specific amounts for equipment and library materials. Tuition will increase, but course-specific fees will be eliminated. Colleges and universities have been given a priority list of cutbacks, and reductions will reflect the unique mission of each institution.

While Oklahoma has not experienced the budget constraints of other SREB states, the Oklahoma State Regents for Higher Education have adopted the Academic Planning and Resource Allocation plan to strengthen educational services. Each college and university must develop an academic plan based on its institutional mission that will identify academic program priorities, and course priorities within disciplines. Institutions will then work to strengthen high priority programs by shifting resources. This approach is meant to increase program quality significantly over time.

Higher education boards in both Maryland and Virginia are discussing whether shifting some public college operations to the private sector might be a way to protect quality as public funding diminishes. If general fund support per student has not returned to the national average by 1996, the Virginia Higher Education Commission recommends that the Commonwealth change its relationship with some colleges and universities, which might become "semi-private" as non-state revenues increase and state support becomes a smaller share of their budgets.

The institutions (or particular programs within the institutions) would have to meet state program standards but not state administrative regulations. The plan would allow institutions to significantly increase tuition and soften the impact of limited state funding. State-supported institutions that maintain their current status would be fewer in number and could be better funded from available resources.

FUTURE CONSIDERATIONS

As school and college leaders grapple with budget shortfalls, they might ask themselves these important, if not very popular, questions: "Can we make something positive out of hard times? Can we make difficult decisions that under normal circumstances might not be made? Can we turn this financial predicament to our advantage with some fresh thinking about the way we operate?"

- Can tough budget decisions be made in a way that leads to long-term improvements in colleges and schools?
- Are reduction strategies designed to identify priority programs and services and keep them as strong as possible?
- Are policymakers focused on goals and the means to show progress toward those goals in measurable terms?
- Are incentives being offered to promote efficiency and productivity?
- Are recent investments in educational innovation being reduced or eliminated? What factors have changed that no longer make these quality improvement programs essential?
- Are budget cuts having a disproportionate affect on minority students, older adults enrolled in college, students with special educational needs, or those with financial need?
- When the economy recovers, will schools and colleges return to earlier spending patterns, or will new spending priorities emerge?
- Will the recession result in improved methods of accountability that further link funding to outcomes?

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